

Written Testimony of

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Subcommittee on Courts, the Internet, and
Intellectual Property**

Hearing on

“Patent Trolls: Fact or Fiction?”

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STATEMENT OF EDWARD R. REINES

Chairman Smith, Ranking Member Berman, and Members of the Subcommittee:

I.

INTRODUCTION

Thank you for asking me to share my thoughts concerning the question of “patent trolls” and effective patent reform. My name is Edward Reines, and I am a Partner in the law firm of Weil, Gotshal & Manges, LLP. I specialize in patent cases and I am based in Silicon Valley. I am honored to appear again before this Subcommittee.

Let me briefly describe our patent litigation practice so you can understand more about my vantage point. Weil, Gotshal’s patent litigation practice is national; we try cases from coast to coast. We have a team of nearly one hundred attorneys who concentrate on patent litigation. At any given time, we handle dozens of active patent cases. We represent small entities and we represent large entities. We represent plaintiffs and we represent defendants. We have won verdicts for many millions of dollars and we have defended against such claims.

In sum, as an attorney who works day-to-day in the patent litigation trenches, beholden to no class of litigant, I plan to share with the Subcommittee an informed and balanced perspective from the front-lines. In that regard, these are my independent views, not those of my law firm or any of its clients. I also welcome the opportunity to answer any questions you may have.

II.

THE TIME IS RIGHT FOR PATENT REFORM

At the outset, as a member of the patent community at large, I would like to express appreciation for the investment this Subcommittee and its staff have made in taking a close look at patent reform. Patent issues can be esoteric and there are many other issues on the Congressional agenda that may be viewed as more glamorous.

There is a building consensus that now is the right time for patent reform. Innovation is the life-blood of our economy and a key contributor to our global competitiveness. While there are fringe pundits who would eliminate our patent system, there can be no serious question that a vibrant patent system is a key ingredient to a thriving technology sector. However, for its own health, the patent system deserves reform now; much as an overgrown plant requires pruning to regain its balance and vitality. Concerns in the business community about excesses and abuses are at a high.¹ This breeds cynicism and undermines confidence in the patent system. Moreover, the upsurge in Supreme Court activity in the patent area, and the media spotlight on high-profile patent matters such as the Blackberry© case, confirm that this is the right time for this Subcommittee to continue to lead the national debate on patent reform.

¹ Joe Beyers, "Perspective: Rise Of The Patent Trolls," CNET News, October 12, 2005 http://news.com.com/Rise+of+the+patent+trolls/2010-1071_3-5892996.html ("The shakedown is on. In the aftermath of the dot-com bust, a new kind of business with a simple, yet potentially lethal, model has emerged. Call them the 'patent trolls.'").

III. THE QUESTION OF PATENT TROLLS

The term “patent troll” was coined about seven years ago to refer to abusive patent litigants.² Since then, a lot of ink has been spilled -- and internet blogs filled -- attempting to define exactly who is a troll.³ Serious publications from Business Week to The Wall Street Journal have addressed this issue.⁴

To answer directly the question posed for this hearing, the existence of entities fairly characterized as patent trolls is a fact. If lawyers start a company purely to buy a patent out of bankruptcy, and promptly seek royalties that are one hundred thousand times what they just paid for the patent, you have a patent troll under any reasonable definition. This is particularly true where the demand is based on an implausible theory of infringement.

I can tell you based on first-hand experience that such entities do, in fact, exist. But a valid, working definition that is neither over-inclusive nor under-inclusive is elusive. This is true because entities which attempt to exploit the existing imbalances in patent law take all shapes and

² See Brenda Sandburg, “You May Not Have A Choice. Trolling for Dollars,” The San Francisco Recorder, July 30, 2001 (quoting Peter Detkin, ex-Intel legal counsel).

³ See, e.g., Dennis Crouch, “What is a patent troll?,” Patently-O Patent Law Blog at http://www.patentlyo.com/patent/2006/05/what_is_a_patent.html. Anyone familiar with modern-day patent litigation should not be surprised that patent lawyers would dedicate such energy to attempt to arrive at a definitive meaning for a common term.

⁴ Don Clark, “Inventors See Promise In Large-Scale Public Patent Auctions,” Wall Street Journal Online, March 9, 2005; Lorraine Woellert, A Patent War Is Breaking Out On The Hill, Business Week, July, 2005.

forms. The only limit is human ingenuity. Thus, when it comes to the hard work of rolling up your sleeves and shaping patent reform legislation, it is my view that we are best off targeting actions that are undesirable when undertaken by any litigant. Nonetheless, an examination of the characteristics of what some consider a “pure troll” may be useful in highlighting the nature of the imbalances which need reform. Such an entity:

- Has no significant assets except patents
- Produces no products
- Has attorneys as its most important employees, and
- Acquires patents, but does not invent technology itself.

The patent community’s efforts to define a patent troll with precision have borne fruit by provoking helpful, and often passionate, discussion about who is abusing the patent system and how they can be deterred. However, effective reform legislation that addresses abusive practices generally will not only get at the root of the “patent troll” problem, but it also will evenhandedly deter undesirable behavior regardless of who engages in it. In the end, because the debate over whether this litigant, or that litigant, is a troll can provoke an emotional controversy over the intrinsic worth of a company or person, there is a risk that too much focus on labeling particular entities as patent trolls will distract from the greater patent reform effort.

IV.

UNDESIRABLE CONDUCT WORTHY OF ATTENTION

Much of the patent reform debate has focused on patent quality and the need for improvement at the Patent Office. In litigation, we see

many patents that are valid and which were properly granted by the Patent Office. We recently tried a case in which we enforced patents covering an invention for which a Nobel Prize was awarded. To be sure, such patents are important. Nevertheless, based on the mixed quality of the patents seen day to day in litigation, patent quality is undoubtedly a subject worthy of scrutiny. However, because this Subcommittee has already conducted productive hearings on patent quality, and because patent quality is not specific to the “patent troll” issue, I will focus my testimony on undesirable conduct by the users of the patent system, rather than patent quality *per se*. That said, the need for an even-handed review of patent validity is essential, and the Committee should examine post-grant opposition mechanisms that allow for an opposition to be filed after a patent infringement lawsuit is brought.

Below, I identify six areas for potential reform to improve the patent system and discourage undesirable behavior.

A. Treble Damages -- Willfulness

Top among the areas worth attention as part of patent reform is treble damages based on claims of willfulness. Too often, patent owners use the threat of treble damages to attempt to extract a greater settlement than is warranted. This frequently happens in negotiations before a case is filed. In patent cases, the specter of treble damages is easy to create because it does not take much to level an allegation of willful infringement. Indeed, I cannot recall a patent infringement complaint that did not have a request for treble damages based on an allegation of willfulness.

Abusive litigants will commonly “notify” a defendant of many allegedly infringed patents leading up to the filing of a complaint, often

using clever lawyer language to implicate as many patents in its portfolio as possible. A company in receipt of such a letter is put in a difficult situation. If it would like to have a traditional legal opinion to respond to a willfulness allegation, it obviously needs to secure and pay for an opinion from an independent law firm each time it receives a notice letter. The cost of an opinion can easily reach \$50,000 and up per patent, not to mention the time of corporate legal and technical staffs to manage the opinion process. In such circumstances, it can be economically rational for the accused to simply settle the matter before expending the resources and time necessary to gather outside legal opinions for every threatened patent.

Moreover, should the case go to litigation, defendants are put to the difficult choice of waiving the attorney-client privilege to prove that they in fact relied upon “competent” legal advice. If they do not waive the privilege, they will be unable to rely upon the exculpatory advice they sought and received. However, if they do waive the privilege there are heavy costs. Such a waiver is highly invasive and handicaps the defendant from the outset because it is forced to unilaterally turn over its legal theories and strategy. In addition, given the volume of so-called “notice” letters that are sent, it is difficult as a practical matter for even the most conscientious legal staff to secure legal opinions for every patent brought to its attention that cannot be called into question in some way by a skilled trial attorney if the case goes to trial.

In short, the current rules for willful infringement invite abuse and are worthy of this Subcommittee’s attention. The duty to respond to an allegation of patent infringement should only arise when a direct allegation of infringement has been made.

B. Submarine Patents

Submarine patents are a problem often associated with patent trolls. Submarine patents are patents that are secret until long after the date of invention and long after the market in an area of technology has developed. Under current United States law, publication of a patent application can be delayed until a patent is actually granted if one does not file corresponding foreign patent applications.⁵

When the existence of a patent application remains secret, the market becomes quite vulnerable to a late-issuing patent. This is because market participants build products and develop industries blind to the claimed patent rights of others. Once the market adopts a technology, altering products to remove that technology can be very expensive and disruptive. Customers get used to a particular technology and will resist change. This is true even if the selected technology is no better than available alternatives. For example, in our country, household appliances have developed based on the design of the common electrical wall plug with which we are all familiar. It would be very difficult to now change the plug style we use in this country, even though we know that there are equally effective wall plug designs successfully used around the world. Thus, taking this example, when adopting a style of wall plug it would be beneficial to know who is claiming the exclusive rights to which style plug so an informed choice can be made.

In short, submarine patents provide a patent owner with unfair leverage as a result of stealth. This problem can be addressed by requiring

⁵ See 35 U.S.C. Section 122.

publication of patent applications 18 months after filing for all patent applications regardless of whether related applications are filed abroad.

C. Continuation Applications

A problem related to the issue of submarine patents is the unlimited right patent applicants have to file continuation applications when seeking patents. As things stand, after receiving a patent on an initial patent application, the applicant can submit an unlimited number of continuation applications. This allows an applicant to obtain a patent but also “keep alive” a duplicate of that patent application by filing a “continuation.” New patents can then be sought on the same technology for years to come.

This common practice allows a patent owner to file suit based on its initial patent while a continuation of the patent application remains pending in the Patent Office. Inevitably, applicants exploit information gained in litigation or from the marketplace to shift their patent rights over time to cover the products in the marketplace rather than to cover what they believed was invented. One negative effect of this practice is that patent owners can threaten a product not only with its existing patents, but with the promise that new and improved patents will issue long into the future. Product makers are then motivated to settle rather than face a long future of patent litigation by a tenacious patent owner, even if they believe they can win the case they are then litigating.

The Patent Office is seriously considering the revision of its continuation rules to address this area of abuse. The Subcommittee should support the Patent Office in its laudable effort to reform continuation practice, as appropriate. In addition, the Subcommittee should continue to monitor this issue to determine whether legislative reform is warranted.

D. Damage Apportionment

The issue of damage apportionment is important, but often overlooked. The problem stems from the fact that modern technology is so complex that one product can relate to thousands of patents. Patent owners often seek a substantial royalty that is a percentage of the value of the overall product, even where the patentee's inventive contribution relates to an extremely small aspect of the product. Thus, if a product sells for \$100,000, the patentee will often seek 5% or more of the overall price of the product for a \$5000 royalty per product, even if the patent relates only to a minor and rarely used option. This problem is particularly acute when the patent owner sells no products. This is because there is no risk that overreaching royalty demands it makes will be used against it by others.

Unfortunately, current law does not do a good job of ensuring that a patentee receives a royalty in proportion to the true role of the patented invention. As an example, in many cases damages' experts will rely on the traditional principle that, as a "rule of thumb," licensors should receive a quarter to a third of the profit made on a product. However, if there are five patents relevant to a complex product, much less thousands, all the profit and then some would go to patent licensors applying this "rule of thumb." The party that actually created and sold the product would be forced to lose money on its products sales, under this common royalty analysis. Yet, this type of testimony is often permitted because of years of authority and long-standing licensing practices from a bygone era.

Another factor is that the legal form of patent claims can be manipulated to inflate damage demands and awards. A patentee can draft a patent claim to cover a large and expensive product even where the

invention relates only to a minor and inexpensive component. For example, if one were to invent a new type of windshield wiper, patent law permits the patent to be granted on a standard car with the improved windshield wiper. Under common interpretations of patent law, the royalty percentage is then based on the price of the entire car, not just the improved windshield wipers. This, not surprisingly, inflates unduly the plaintiffs' demands.

Put simply, in the real world, a host of factors impede attempts to put a patent in context so one can effectively explain to a jury this concept of proportionality. For example, judges often do not want a trial to involve what other patents may cover a product beyond those that are allegedly infringed because it is complex enough for the jury to determine whether the asserted patent or patents cover the product. In addition, a juror is subjected to so much focus on the asserted patent and the accused feature in the trial process that efforts to put into perspective the limited role of the patented technology are difficult.

Reforms to the law of patent damages are worthy of this Subcommittee's attention and simply codifying existing caselaw, such as the so-called "Georgia Pacific" factors, is insufficient.

E. Choice of Forum

Another area worthy of the Subcommittee's attention is the forum selection system for patent cases. Some commentators complain about generalist courts that do not have sufficient patent expertise or sufficient resources to resolve patent cases fairly. On the other hand, other commentators pick on one or two courts because they attract a lot of patent cases. But the issue is not any particular venue or region. Rather, the issue is that the breadth of the current patent venue statute allows plaintiffs to

select a courthouse with such latitude that the selected forum – wherever it may be – is often viewed by the defendant as unfairly inconvenient, unsympathetic or otherwise unfavorable.

Some have proposed experiments with specialized patent courts, others have proposed major revisions to the venue statute, still others believe the current venue transfer rules are more than adequate to address this issue. Regardless of the ultimate answer, this is an area worthy of the Subcommittee's attention.

F. Injunctions

Until the Supreme Court's recent eBay decision, the law of injunctions in patent cases was susceptible to abuse. Settlement negotiations often featured graphic, and public, threats of a permanent injunction designed explicitly to gain undue settlement leverage. Courts would almost always grant permanent injunctions. Exceptions were rare. To avoid the near automatic injunction required an extreme situation, such as the potential for a public health emergency or a threat to national security.

Hopefully, the eBay decision will improve the law of patent injunctions and thus bring closer together the various groups that support patent reform. But while the eBay decision encourages a greater weighing of the equities by district courts, the decision was not determinative as to the future direction of the law of injunctions in patent cases. Accordingly, this is an area worthy of continued monitoring by the Subcommittee.

V.

CONCLUSION

A healthy patent system is important to the continued success and progress of the American economy and society. Our current system is in need of reform. Patent trolls exist and they are a problem. However, the proposed definitions of that term are over-inclusive, under-inclusive or, more frequently, both. Abuse in the patent system is best addressed by identifying undesirable conduct that should be deterred regardless of who engages in such conduct. I hope this testimony helps the Subcommittee identify areas of abuse so that balanced patent reform can be pursued. Improvements in patent law in a very direct sense improve the prosperity of our technology community, which is a crown jewel of the American economy. The work undertaken by the Subcommittee and its staff directed towards patent reform is therefore most appreciated.